

June 4, 2002

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

**REQUEST FOR AUTHORITY TO NEGOTIATE FOUR SEPARATE  
LEASE AGREEMENTS OF UP TO 30 YEARS FOR THE DEPARTMENTS OF  
CHILDREN AND FAMILY SERVICES, CHILD SUPPORT SERVICES,  
MENTAL HEALTH, PROBATION, AND PUBLIC SOCIAL SERVICES  
AT VARIOUS LOCATIONS IN SERVICE PLANNING AREA 6  
(SECOND) (3-VOTES)**

**IT IS RECOMMENDED THAT YOUR BOARD:**

Authorize the Chief Administrative Officer (CAO) to enter into negotiations with ICO Investment Group, Inc., McCoy Associates, and Vermont Village Community Development Corporation for 30-year lease agreements and with KMPG for a lease agreement of up to 15 years to provide approximately 625,000 rentable square feet of office space and appurtenant parking at four different sites (three build-to-suit and one existing building) within Service Planning Area (SPA) 6 for the Departments of Children and Family Services (DCFS), Child Support Services (DCSS), Mental Health (DMH), Probation, and Public Social Services (DPSS) at an initial monthly full-service rental rate ranging from \$2.40 to \$2.90 per square foot.

**PURPOSE OF RECOMMENDED ACTION**

This action will allow the CAO to negotiate for acquisition of leased office space to accommodate DCFS, DCSS, DMH, Probation, and DPSS within SPA 6 which will provide for the delivery of services in much closer proximity to the caseload population these departments serve. In the event that a final lease is not approved by your Board on or before December 31, 2002, the exclusive right to negotiate specified above will end, and the developers involved will not be entitled to reimbursement for architectural fees or any other costs incurred during the preliminary planning phases of these proposed projects.

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## **JUSTIFICATION**

In November 1993, your Board approved the creation of eight Service Planning Areas to provide for better planning, coordinating, sharing of information and data, and delivery of children's health, mental health, and social services. In November 1998, your Board approved the first phase of the CAO's Strategic Asset Management Plan which called for an in-depth study of space utilization and service delivery among the social service departments: DCFS, DCSS, DMH, and DPSS. As a result, the County retained the services of Gensler and Asset Strategies to conduct a Social Services Space Study which concluded that caseload and service delivery locations were, to varying degrees, mismatched in all SPAs, but most pronounced in SPA 6. SPA 6 is located in the south central area of Los Angeles County and has one of the largest concentrations of social services caseload, but is deficient in existing County facilities and office space to optimally deliver these services. At the present time, there are no DCFS or DCSS facilities within SPA 6. The public in need of services must travel long distances to offices outside the SPA 6 area. While DMH and DPSS have office facilities in SPA 6, the Social Services Space Study concluded that substantial additional square footage was needed and that the County should consider acquiring new larger facilities to consolidate numerous existing offices and provide opportunities for co-location of programs. Such a strategy would provide both functional and economic efficiencies by allowing more convenient and coordinated service delivery for the public as well as economies of scale from shared use of support space (conference, reception, and storage space) and improved leverage inherent in larger size projects from lower per-unit cost of construction. In addition, such new facility acquisitions could serve as catalysts for neighborhood revitalization.

In addition, one facility included in this recommendation, 1326 West Imperial Highway, currently houses a DPSS and an Adult Probation Office. The replacement of this functionally obsolete County-owned facility is included in this lease acquisition request.

Soon after completion of the study, the CAO undertook an extensive search to identify available office space, but the supply of available existing office facilities within SPA 6 is limited. As a result, in May 2001, the CAO issued a Request For Proposal (RFP) to 367 real estate developers, brokers and other interested parties to lease an office complex or complexes to be designed and built to meet the identified space requirements for SPA 6. Fifteen responses were received, some of which were disqualified for being outside the SPA 6 area.

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After careful and lengthy review and evaluation of all the responses, this office is recommending that negotiations commence for lease acquisition of the following proposed sites offered in response to the RFP. Three of the projects are proposed new construction, and the fourth project is an existing building.

<b><u>Proposer</u></b>	<b><u>Development Type-Address/Location</u></b>	<b><u>Approximate Building Square Feet</u></b>
KMPG	Existing Building at 921 E. Compton Boulevard	65,000 (up to)
ICO Investment Group, Inc.	Build to Suit at 2000 West Slauson Avenue	296,000
McCoy Associates	Build to Suit at S/E corner Main and Rosecrans Blvd.	130,000
Vermont Village CDC	Build to Suit at 120 <sup>th</sup> Street and Western Avenue	120,000
Contingency		<u>14,000</u>
Total		625,000

### **FISCAL IMPACT**

The selected proposals offer an initial monthly full-service rental rate ranging from approximately \$2.40 to \$2.90 per square foot for the build-to-suits. The lessor will be responsible for all the operating expenses associated with County's tenancy, including building management. The base portion of the rental rate will be unchanged and fixed over the 30-year term. Increases or decreases in the operating expenses will be passed through to the County on a monthly basis.

The initial first-year total rental cost is estimated at approximately \$18.0 million per year based on \$2.40 per square foot. A substantial portion of that cost will be subvented by Federal and State funds, estimated at 87 percent, or \$15.7 million, leaving a net County cost (NCC) of \$2.3 million. In addition, the deletion of lease and operating costs of currently occupied space will save the County an additional \$0.3 million (NCC), so that the total increase in NCC associated with the entire project will be \$2.0 million. The present staff of each department can be accommodated in the four new office facilities with substantial growth programmed in, based on an identified need for about 900 current

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budgeted, unfilled positions, as well as some anticipated future program growth. The existing leased and owned facilities proposed to be vacated, and associated costs, are shown on Attachment A.

Each developer will be responsible for arranging its own financing for both acquisition and total development costs through conventionally financed loans, unless otherwise specifically approved by the County. A complete financial analysis will be presented as a part of the final recommended lease agreements to be submitted to your Board for its consideration.

#### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

All the proposals selected will require the developer to provide a Class "A", structural Type I fire rated building. Total "turnkey" development costs for the three build-to-suit facilities range from \$286 to \$354 per square foot. The Tenant Improvement costs for the one existing building at 921 East Compton Boulevard is \$60 per square foot. The development time from lease execution to move in will be approximately 24 months for the build-to-suits, and six to nine months for the existing building.

The three build-to-suit leases will have terms of 30 years with options to extend and renew the term for an additional period of time. Tenant Improvements will be provided on a turnkey basis for \$60 per square foot to be amortized within the base rental rate which will be fixed and unchanged over the 30-year term, as specified by the County. In addition, a reserve for capital replacements of \$0.60 per rentable square foot per year will also be included in the base rental rate. The developer/lessor will be responsible for capital item replacements over the term of the lease and may use the reserve account for this purpose with the County's approval. Any unused reserves upon lease termination will revert to the County. The term of the lease at 921 East Compton will be for 15 years or less.

Parking at the rate of four spaces per 1,000 rentable square feet, or better, will be provided on-site. The developer will be obligated to provide an on-site child care center for employees for each building that is 100,000 square feet or more as a part of the overall development cost.

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A purchase option will be available after the 15<sup>th</sup> year of the lease term for a fixed price declining annually thereafter based on a straight-line depreciation of the improvements at two percent over a 50-year term plus the fair market value of the land determined at the developer's cost plus two percent per year for inflation. As such, it is the County's intent that the proposed leases be characterized as operating leases in accordance with accounting standards ("FASB-13").

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

Your Board's authorization will allow the CAO to take the next step in the lease acquisition process by beginning lease negotiations and to return with final lease agreements and/or a progress report for your Board's consideration on or before December 31, 2002.

Respectfully submitted,

DAVID E. JANSSEN  
Chief Administrative Officer

DEJ:SNY  
CWW:WD:ms

Attachment

c: County Counsel  
Department of Children and Family Services  
Department of Child Support Services  
Department of Mental Health  
Department of Public Social Services

## SOURCE FACILITIES FOR SPA 6 PROJECTS

Department Existing Facility	Space Occupied	Lease/ Own	Lease Cost Savings	Operating Cost Savings @ \$0.50/mo	New Space @ \$2.40/sf/mo (annual cost)	Subvention Rate	NCC of New Space (annual)	NCC of New Space Net of Current Costs
Public Social Services					9,187,200	92%	734,976	604,667
211 E. Alondra, Compton	48,135	own	--	288,810				
10728 S. Central, Los Angeles	51,991	own	--	311,946				
1326 W. Imperial Hwy, Los Angeles	131,351	own	--	788,106				
1326 W. Imperial Hwy, Los Angeles (trailer)	10,080	lease	94,645	--				
923 E. Redondo, Inglewood	40,000	own	--	240,000				
	281,557		94,645	1,628,862				
Children and Family Services					5,246,525	87%	682,048	602,441
5767 W. Century, Westchester	27,000	lease	612,360	--				
4060 Watson Plaza, Lakewood	0	lease	--					
	27,000		612,360					
Child Support Services								
621 Hawaii Street, El Segundo	47,576	lease	1,113,276	--	1,468,800	100%	--	--
Probation								
1326 W. Imperial Hwy., Los Angeles	22,635	own	--	135,810	864,000	0%	864,000	728,190
Mental Health					864,000	100%	--	--
322 W. Compton Blvd., Compton	9,445	lease	162,926	--				
2701 Firestone Blvd., South Gate	7,200	lease	103,442					
	16,645		266,368					
Child Care	=====		=====	=====	345,600		44,713	44,713
	395,413		3,060,022	1,764,672	17,976,125		2,325,738	1,980,012

(1) In Lakewood, the move of 80 people will relieve overcrowding; there will be no lease cost savings.